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FROM: J. Tyler McCauley
Auditor-Controller

A handwritten signature in blue ink, appearing to be "tm", written over the printed name of J. Tyler McCauley.

SUBJECT: **DEPARTMENT OF PUBLIC SOCIAL SERVICES - WELFARE FRAUD
PREVENTION PROGRAM REVIEW**

On December 3, 2002, your Board directed the Auditor-Controller to review the effectiveness of the Department of Public Social Services' (DPSS) welfare fraud prevention programs and to make recommendations for improvements. It should be noted that we recently became aware of fraudulent activity that was the result of a significant internal control weakness. Because of the ongoing criminal investigation, this issue is not discussed in this report.

METHODOLOGY

In conducting our review, we interviewed DPSS staff, reviewed policies, procedures, and management reports, and tested samples of cases for compliance with established procedures. We also surveyed other counties to determine whether there are any techniques they use that DPSS could incorporate into their detection/prevention programs.

SUMMARY OF FINDINGS

DPSS has controls and programs in place designed to prevent, detect, investigate, and prosecute welfare fraud. Examples include using the Statewide Fingerprint Imaging System, various computer matches designed to detect potential fraud, and a toll-free hotline for the public and DPSS staff to use to anonymously report welfare fraud 24 hours a day. These controls/programs, along with others, are discussed in detail in the Comments and Recommendations section of our report.

The Department also has a Welfare Fraud Prevention and Investigations Section (WFP&I) consisting of 329 employees. This section investigates allegations of fraud referred from one of the Department's hotlines or from one of the Department's 29

welfare assistance districts. If warranted, the section refers cases to the District Attorney for possible prosecution of the case.

Overall, the Department spends a minimum of \$32 million a year on welfare fraud prevention and detection activities. This figure includes only costs that can be separately identified such as the cost of operating WFP&I, costs paid to the vendor to operate the Statewide Fingerprint Imaging System, contract payments to the hotline vendor, and payments to the District Attorney.

Our surveys with eight California counties disclosed that these other counties use fraud prevention/detection programs similar to those used by DPSS. Our surveys did not reveal any unique programs that DPSS does not utilize. We also accessed the California Department of Social Services (CDSS) website to obtain fraud statistics reported by counties throughout the State. We found that, for the most part, the County's performance is consistent with Statewide averages in key areas such as success rates in substantiating fraud on referrals received and in prosecuting cases.

We did identify several areas where DPSS can improve its ability to minimize welfare fraud and to maximize benefit recoveries when fraud is detected. The following are examples of our key findings.

- 1. District staff do not perform timely reviews of wage abstracts.** The Department has approximately 290,000 unworked wage abstracts on hand. DPSS generates wage abstracts from quarterly computer tapes received from CDSS. The abstracts are produced for cases where a participant's wages reported by employers to the Employment Development Department exceeds the amount reflected on the Department's Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting System (LEADER). CDSS requires the abstracts to be compared to case data within 45 days in order to determine the impact on a participant's benefit eligibility. However, we found that approximately 64% of the 290,000 abstracts were at least 90 days old. Working cases more timely will minimize overpayments/overissuances to welfare participants.
- 2. The Department has not established priorities for working the various types of computer matches.** The Department receives 11 different computer listings showing cases with potential benefit overpayments/overissuances. DPSS has not established priorities for working each listing. For example, the Department's procedures do not indicate whether a particular type of match should be given priority over another type of match. As a result, the Department may not be maximizing overpayment/overissuance recoveries. As indicated in finding #3 below, the Department also needs to begin maintaining statistics for each type of match so they can determine which matches are the most cost effective to work.

3. **Statistics do not exist for each type of welfare fraud computer match.** DPSS uses various matches between its database and certain State databases to produce various match listings showing potential overpayments/overissuances. As previously indicated, there are 11 different types of matches. Currently, DPSS maintains detailed statistics only for wage matches. DPSS management should begin maintaining statistics for all matches. This will help management determine which matches are the most cost effective to work. It will also help management monitor each type of match so that large backlogs do not accumulate.

4. **Not all districts work computer reports that show participants who are temporarily exempted from the fingerprint process.** The Statewide Fingerprint and Imaging System produces weekly reports showing participants who were granted temporary exemptions. A temporary exemption can be granted if the participant was unable to come into the district or if district staff were not able to capture a fingerprint from a finger on each hand. District staff need to review the fingerprint exemption reports on a regular basis to ensure that only participants with valid reasons are exempted from fingerprinting.

SUMMARY OF RECOMMENDATIONS

DPSS management needs to develop a plan to reduce the large number of unworked wage abstracts. In addition, taking cost into account, management should establish priorities for working the various types of computer match listings and begin maintaining statistics for all types of matches. Finally, DPSS can strengthen controls by requiring district staff to review the fingerprint exemption reports on a regular basis to ensure that only participants with valid reasons are exempted from fingerprinting.

Details of these and other findings and recommendations are contained in the attached Comments and Recommendations section of our report.

REVIEW OF REPORT

We discussed our report with Department management. The Department's attached response indicates general agreement with the findings and recommendations.

We thank DPSS management and staff for their cooperation and assistance during our review. If you have any questions regarding this report, please contact me or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:DR:RD
Attachments

c: David E. Janssen, Chief Administrative Officer
Bryce Yokomizo, Director, Department of Public Social Services
Steve Cooley, District Attorney
Violet Varona-Lukens, Executive Officer
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Department of Public Social Services
Welfare Fraud Review

SCOPE/OBJECTIVES

At its December 3, 2002 meeting, the Board of Supervisors instructed the Auditor-Controller to review the Department of Public Social Services' (DPSS) welfare fraud prevention programs. The purpose of our review was to assess the effectiveness of the Department's welfare fraud prevention programs and to make recommendations for improvements.

METHODOLOGY

In conducting our review, we interviewed DPSS staff; reviewed policies, procedures, and management reports; and tested samples of cases for compliance with established procedures. We also surveyed other counties to determine whether there are any techniques they use that DPSS could incorporate into their detection/prevention programs. The counties contacted were Orange, Riverside, San Bernardino, San Diego, San Luis Obispo, Santa Barbara, Santa Cruz, and Ventura.

BACKGROUND

DPSS is the largest locally operated social welfare department in the country, with a workforce of approximately 13,000 employees. The Department's major welfare assistance programs are CalWORKs, Food Stamps, and General Relief. In calendar year 2002, the Department issued average monthly benefits of \$172 million on 535,000 cases.

DPSS' Welfare Fraud Prevention and Investigations Section (WFP&I) consists of 329 employees. This section investigates allegations of fraud referred from one of the Department's hotlines or from one of the Department's 29 welfare assistance districts.¹ If warranted, the section refers cases to the District Attorney for possible prosecution of the case. WFP&I's fiscal year 2002-03 budget for Salaries and Employee Benefits and for operating costs is \$22.8 million. WFP&I received 55,000 referrals in 2002.

COMMENTS AND RECOMMENDATIONS

Existing Programs and Controls

We noted that DPSS has programs and controls in place designed to prevent, detect, investigate, and prosecute welfare fraud. The key programs and controls are discussed below:

¹ The Department has 34 welfare assistance districts. However, five do not make referrals to WFP&I because they do not issue welfare payments.

IEVS Computer Matches

The Income and Eligibility Verification System (IEVS) / Integrated Fraud Detection System (IFDS) is a State system required by federal law. Once a quarter, DPSS sends computer files of active cases to the California Department of Social Services (CDSS). CDSS matches the files against various databases and produces a computer tape of matches to send to DPSS to print various listings. Other listings are sent directly from CDSS to DPSS.

DPSS uses the match listings to identify potential overpayments. For example, one listing includes cases where a participant's wages reported by employers to the Employment Development Department exceeds the amount reflected on the Department's Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting System (LEADER). Other listings include matches against Internal Revenue Service (IRS), Franchise Tax Board (FTB), jail, and California Youth Authority records.

Early Fraud Detection/Prevention Program

Under the Early Fraud Detection/Prevention (EFD/P) program, Welfare Fraud Investigators from WFP&I are stationed in the Department's 29 district offices. Eligibility Workers (EW) in the districts make a referral to the EFD/P Welfare Fraud Investigators whenever the EW believes that an applicant provided false information or failed to report essential information. The purpose of the EFD/P program is to prevent fraud before it starts. EFD/P Welfare Fraud Investigators also receive fraud referrals on open cases from WFP&I's central office.

Statewide Fingerprint Imaging System

The State contracted with Electronic Data System (EDS) to implement a Statewide Fingerprint Imaging System (SFIS). As part of the application process, all CalWORKs, Food Stamp, and General Relief clients must be fingerprinted. SFIS helps prevent a client from receiving aid on more than one case. For example, if a client applies for aid in Los Angeles County, but already has an open case in another county, SFIS will produce an alert. DPSS contracts with PDQ Personnel Services, Inc., to operate the SFIS workstations by photographing clients and scanning their fingerprint image into SFIS.

LEADER

In April 2001, the Department fully implemented LEADER in all district offices. LEADER automated the Department's manual and paper intensive eligibility and case processing functions. It also consolidated many of the Department's automated systems. LEADER includes a number of key internal controls such as passwords for all employees, a record of all case transactions, and a requirement that supervisors electronically approve new cases. Compared to the old systems, information on LEADER is much

more accessible, allowing staff to more efficiently conduct analyses and investigations on cases.

We Tip Hotline

DPSS contracts with We Tip, Inc., to operate a toll-free hotline for the public and DPSS staff to use to anonymously report welfare fraud 24 hours a day. We Tip records information about each call and refers the case to WFP&I for investigation. We Tip referred 3,000 cases within the last year.

Home Interview Program

Under the Home Interview Program (HIP), all CalWORKs participants must receive a home interview as a condition for eligibility. The purpose of the home interview is to explain the CalWORKs program to the participant and to discuss the availability of supportive services. Supportive services include educational, child care, transportation, domestic violence, substance abuse, and mental health services. During the interview, the HIP Eligibility Worker (EW) also notes any indications of circumstances that are inconsistent with the case information. For example, if children will be aided on the case, the HIP EW will look for evidence that children live in the home. If the participant claims that the father is an absent parent, the HIP EW will look for indications that the father lives in the home.

During the one-year period from October 1, 2001 through September 30, 2002, 59,800 home interviews were attempted. As a result of the interviews, the Department denied benefits for 2,550 (4.3%) cases.

District Attorney Investigations and Prosecution

DPSS provides funds to the District Attorney (DA) to investigate and prosecute welfare fraud. During calendar year 2002, the DA prosecuted approximately 800 cases.

Welfare Fraud Linkage Analysis Database System

The Welfare Fraud Linkage Analysis Database System (WFLADS) analyzes data received from LEADER for potential fraud cases. For example, one report shows two or more children on the same case with birth dates less than seven months apart.

Comparison to Other Counties

We contacted eight other counties and the State Fraud Bureau to determine if other counties have any fraud prevention/detection programs that are currently not utilized by DPSS. Our surveys did not disclose any fraud prevention/detection programs that DPSS currently does not already use.

We also accessed the California Department of Social Services' (CDSS) website to obtain fraud statistics reported by counties throughout the State. The table below summarizes key fraud data for the State and for Los Angeles County. While the table does not show how well counties identify fraud, it does present data showing the results of investigations after a fraud referral has been received. Our objective in reviewing the data was to determine if the County's performance is consistent with Statewide averages in key areas such as success rates in substantiating fraud on referrals received and in prosecuting cases.

FRAUD ACTIVITY DATA (COUNTY VS STATEWIDE)			
October 1, 2001 through September 30, 2002			
	State	Los Angeles County	
Completion Rate			
Cases referred for investigation	421,022	88,231	
% of investigations completed	99%	108%	(1)
Source of Referrals			
% of Early Fraud referrals	60%	57%	
% of IEVS referrals	15%	29%	
% of other referrals	25%	14%	
Evidence to Support Allegations			
% of referrals with sufficient fraud evidence found	34%	30%	
Referrals for Prosecution			
% of allegations with sufficient evidence referred for prosecution	8%	7%	(2)
Prosecution Success			
# of cases prosecuted	12,353	1,381	
% successful	82%	90%	
Overpayment Data			
Overpayments identified	\$49,511,137	\$12,616,247	
Overpayments identified per completed case investigations	\$118	\$132	
(1) By completing more cases than referred, Los Angeles County has reduced its backlog of cases.			
(2) This means that of the cases where DPSS determined that fraud occurred, 7% were referred to the District Attorney for prosecution.			

Summary

The table shows, that for the most part, the County's performance is consistent with Statewide averages, with approximately 30% of investigations resulting in fraud findings. This is slightly lower than the Statewide average of 34%. However, the County's success rate for prosecutions (90%) is higher than the Statewide average of 82%.

We found that the Department devotes many resources to prevent, detect, investigate, and prosecute welfare fraud. Despite the Department's efforts, we identified several areas where the Department can strengthen its welfare fraud prevention and detection systems. These areas are discussed below.

Income and Eligibility Verification System Matches

The Income and Eligibility Verification System (IEVS) / Integrated Fraud Detection System (IFDS) is a State system required by federal law. As previously indicated, CDSS sends various match listings to DPSS or sends a computer tape so DPSS can print listings. For some listings, DPSS prints an "abstract", which shows detailed information about each case and provides space for DPSS staff to indicate the results of their review (e.g., the amount of the overpayment identified, etc.).

There are 11 different match listings. For example, the wage match listing includes cases where a participant's wages reported by employers to the Employment Development Department (EDD) exceeds the amount reflected on LEADER. Other listings include matches against Internal Revenue Service (IRS), Franchise Tax Board (FTB), jail, and California Youth Authority records. District staff work some of the listings, while others are sent to WFP&I to be worked. Attachment I shows the 11 listings.

IEVS Backlogs – Wage Matches

Federal regulations require IEVS matches to be completed within 45 days from the date the State agency produces the match report. The regulations state that completing the case requires the IEVS data to be compared with case information, and if there is an impact on current eligibility, that a Notice of Action be sent to the participant informing them of the change in benefits.

According to the IEVS Management Report (DPA 482) for the quarter ending September 30, 2002, DPSS had 289,723 unworked wage match abstracts on hand. Since the Department received only 105,602 abstracts during the quarter, at least 184,121 (64%) of the 289,723 were at least ninety days old.

The large backlog in the Department is consistent with our observations at the district offices. For example, we noted a large backlog of wage abstracts at Metro East and Pasadena. Specifically, Metro East had 13,005 unworked abstracts as of November 30, 2002. The district works an average of 467 cases per month. Therefore, even if no new cases were received, the district would need 28 months to work the 13,005 cases. Pasadena currently has 11,017 unworked abstracts on hand. Based on its average completion rate of 449 cases per month, the district would need 25 months to work the existing cases, assuming no new abstracts were received. In addition, Pasadena receives an average of 1,248 new abstracts per month, which is 799 more than they

complete each month. At this rate, Pasadena's wage abstract inventory of cases to be worked will double in less than 14 months.

It should be noted that, in the past, the Department has experienced large backlogs of unworked wage abstracts. For instance, the Department had 184,000 unworked abstracts as of November 1998, but was able to eliminate the backlog by June 2000 by redirecting staff. DPSS management should develop a plan to reduce the backlog of wage abstracts in district offices. This plan should include exploring the feasibility of reallocating staffing resources in the districts and, if necessary, identifying funding sources.

Recommendation

- 1. DPSS management develop a plan to reduce the backlog of wage abstracts in district offices. The plan should include exploring the feasibility of reallocating staffing resources in the districts and identifying funding sources.**

IEVS Backlogs – Non-Wage Matches

The statistics noted above relate only to wage abstracts. We were unable to determine the extent of unworked cases for other types of IEVS matches because the State does not require counties to report this information. In addition, DPSS management does not require districts to compile this data and, therefore, is unable to track backlogs at the districts.

Although DPSS management does not require districts to report statistics on non-wage matches, we were able to estimate the following figures based on our observations of abstracts, reviews of listings containing matches, or from the districts' internal reports:

- Metro East had approximately 4,100 unworked Payment Verification System (PVS) abstracts and 800 new hire abstracts on hand. Approximately 70% of these documents were more than 45 days old.
- Pasadena had approximately 900 unworked new hire abstracts on hand. Approximately 50% of these documents were more than 45 days old.
- El Monte had approximately 42,000 unworked wage abstracts for Medi-Cal cases. El Monte district management stated that the district has worked only a small number of Medi-Cal abstracts during the past several months because they are waiting for the Department's Program Development and Enhancement Division to revise the procedures for working these cases. Although the Program Development and Enhancement Division is revising the procedures, they indicated that districts should not delay working Medi-Cal abstracts while the procedures are being modified.

Without reporting case statistics on a regular basis, management is unable to readily identify problems with case processing. DPSS management should require districts to report statistics (e.g., number of new cases received, overpayments/overissuances identified, and the number of unworked cases on hand, etc.) for all types of IEVS matches. This will allow management to better monitor the extent of backlogs at districts and to take appropriate corrective actions (e.g., reallocate staffing resources, etc.). In addition, DPSS management should instruct districts to not delay working Medi-Cal abstracts while procedures for working the abstracts are being modified.

Recommendations

DPSS management:

- 2. Require districts to report statistics for all types of IEVS matches.**
- 3. Instruct districts to not delay working Medi-Cal abstracts while procedures for working the abstracts are being modified.**

Jail Matches

WFP&I receives monthly jail match listings. For each open case on the listing, WFP&I sends an Investigation Interim Report (WFP&I 23) to the assigned district to investigate whether an overpayment occurred as a result of the participant being incarcerated. The district indicates its investigative results on the form and returns it to WFP&I so they can close the case on their system. According to WFP&I management, it expects the WFP&I 23s to be returned in 45 days. However, WFP&I does not include a transmittal indicating the due date for completing the form. As a result, districts often do not return the WFP&I 23s within 45 days.

WFP&I's records show 158 WFP&I 23s sent to the districts for cases appearing on the May 2002 jail match listing. Of the 158, WFP&I closed 91 (58%) cases because they had not received a response from the districts. None of the cases was closed until at least 85 days after the WFP&I 23 had been sent to the district. In addition, WFP&I did not send the district a delinquent notice for any of the 91 cases.

To minimize overpayments/overissuances to incarcerated individuals, DPSS management should require districts to complete each investigation and return the Investigation Interim Reports to WFP&I within 45 days. In addition, WFP&I should follow up with districts for Investigation Interim Reports not returned by the deadline.

Recommendations

- 4. DPSS management require districts to complete its investigation and return the Investigation Interim Reports to WFP&I within 45 days.**

5. **WFP&I follow up with districts for Investigation Interim Reports not returned within the 45 day deadline.**

Prioritizing Cases

Section 20-006 of DPSS' Operations Handbook establishes the priority for working wage abstracts. The highest priority includes abstracts that show an earnings discrepancy of at least \$5,000. We were unable to verify that the districts prioritize wage abstracts in accordance with the procedures because none of the districts visited "flag" high dollar discrepancy abstracts when they are received.

Generally, the districts file abstracts alphabetically. When they receive a new abstract, they determine if there are any other abstracts on the case. If there are, the abstract is stapled to the other abstracts. When a worker is ready to work a group of cases, s(he) will look for cases with multiple abstracts. This system does not always ensure that the high dollar discrepancy cases are worked because there could be single abstracts with large dollar discrepancies. In fact, at each district visited, we noted several unworked cases with only one abstract that had earnings discrepancies over \$5,000.

DPSS management should monitor districts to ensure wage abstracts are prioritized in accordance with Section 20-006 of DPSS' Operations Handbook. This will help maximize overpayment/overissuance recoveries.

Recommendation

6. **DPSS management monitor districts to ensure wage abstracts are prioritized in accordance with Section 20-006 of DPSS' Operations Handbook.**

We also noted that the Department has not established priorities for the different types of IEVS matches. For instance, the Department's procedures do not indicate whether abstract matches should be given a higher priority than another type of match such as a new hire or PVS match. As a result, the Department may not be maximizing overpayment/overissuance recoveries.

DPSS management should establish priorities for working the various types of IEVS matches. However, before this can be accomplished, the Department will need to begin maintaining statistics for each type of IEVS match (see recommendation #2) so they can determine which matches are the most cost effective to work.

Recommendation

7. **DPSS management establish priorities for working the various types of IEVS matches.**

Administrative Errors

According to DPSS' IEVS Management Reports, the Department identified approximately \$7.1 million in overpayments/overissuances for the six-month period April 1, 2002 through September 30, 2002. Of this amount, \$1.2 million (17%) was due to administrative errors. These types of errors arise when participants report income to the Department, but the EW either did not update LEADER with this information or the information was entered incorrectly.

DPSS management should require Eligibility Supervisors to monitor EWs to ensure that income reported by participants is entered into LEADER timely and accurately. This should reduce the number of IEVS abstracts received and will enable the Department to focus on working abstracts that result solely from participants who misrepresent their income.

Recommendation

- 8. DPSS management require Eligibility Supervisors to monitor Eligibility Workers to ensure that income reported by participants is entered into LEADER timely and accurately.**

Report Timeliness and Accuracy

CDSS requires counties to complete a quarterly IEVS Management Report (DPA 482), which is due to the State 30 days after the end of the reporting period. The report shows total abstracts carried forward from the prior reporting period, abstracts received and processed during the quarter, and outstanding abstracts as of the end of the quarter. As previously indicated, the abstract shows detailed information about the case and allows DPSS staff to indicate the results of their review. The report also shows overpayments/overissuances identified by DPSS. Counties are only required to report data for CalWORKs and non-assistance food stamp cases.

DPSS did not submit reports for the quarters ending June 30, 2002 and September 30, 2002 until January 14, 2003. This resulted in the reports being submitted as much as five months late. The Department attributed the delays to difficulties in obtaining the required data from the districts. Since the Department is subject to sanctions for submitting late reports, DPSS management needs to ensure the IEVS Management Report is completed by CDSS' due date.

Recommendation

- 9. DPSS management ensure the IEVS Management Report is completed by CDSS' due date.**

We also identified errors in Metro East's and Pasadena's internal reports, which are used to compile the DPA 482. Specifically, Metro East's report showed 13,183 wage abstracts on hand as of November 2002. However, this figure was overstated by 178 due to two errors in carrying forward the ending balances from one month to the beginning balance for the following month. Pasadena's report showed 9,810 wage abstracts on hand as of November 2002. However, this figure was understated by 1,294 because the district inadvertently did not record 696 abstracts received in June 2002 and 598 abstracts received in September 2002 on their report.

We noted that the districts' procedures do not require district management to review the internal reports. As a result, the likelihood of errors in the DPA 482s is increased. To ensure the accuracy of DPA 482s submitted to the State, DPSS management should require district management to review the accuracy of internal reports used to compile data for the DPA 482.

Recommendation

- 10. DPSS management require district management to review the accuracy of internal reports used to compile data for the DPA 482.**

County Response Documents

CDSS requires counties to submit a County Response Document to the State for any wage, PVS, FTB, IRS, or deceased persons match that is considered to be an "impact" match. An impact match is one where the county has identified an overpayment/overissuance. Information on the County Response Document includes the case name, case number, and the amount of the overpayment/overissuance.

According to the State Fraud Bureau, DPSS does not submit any County Response Documents to CDSS. The Department's procedures require the documents to be sent to the Cash Programs Division so they can be forwarded to CDSS. However, the Cash Programs Division stated that the districts have not been submitting the documents. Consequently, DPSS is not complying with CDSS' procedures.

Recommendation

- 11. DPSS management ensure districts submit a County Response Document for wage, PVS, FTB, IRS, and deceased person cases that are determined to be impact matches.**

Fingerprint Process

State law requires all applicants and recipients of benefits under the CalWORKs and Food Stamp programs to provide their fingerprint images, unless they are dependent

children or persons unable to be fingerprinted for reasons such as the loss of all their fingers. DPSS' procedures also require General Relief recipients to be fingerprinted.

DPSS contracts with PDQ Personnel Services Inc., to fingerprint clients on the Statewide Fingerprint Imaging System (SFIS). SFIS operators stationed at the district offices are required to capture one fingerprint from each hand on SFIS. Participants can be granted exemptions on one or both hands. Exemptions are granted if the participant is unable to come into the district or if none of the fingers on a hand can be fingerprinted due to missing or burned fingers. SFIS produces weekly exemption reports that districts are required to review to ensure the participant's exemption still applies.

Fingerprint Exemption Authorization

DPSS' procedures require EWs to approve temporary fingerprint exemptions by checking the appropriate exemption boxes (right finger and/or left finger) on the Fingerprint and Photo Imaging Referral form (PA-59). We sampled a total of eight cases from the Temporarily Exempted Fingerprints reports at Metro East, Pasadena, and El Monte and noted that the EW did not check any exemption boxes on any of the eight PA-59s. SFIS Operators at each of the districts were unaware that they needed approval from district staff to grant temporary exemptions. As a result, the eight clients' exemptions were not approved by an EW, as required by the Department's procedures.

DPSS management should remind EWs and SFIS operators of the requirement that temporary exemptions be approved by EWs on the PA-59. This will help ensure that fingerprint exemptions are properly approved.

Recommendation

- 12. DPSS management remind EWs and SFIS operators of the requirement that temporary exemptions be approved by EWs on the Fingerprint and Photo Imaging Referral form.**

Working Exemption Reports

DPSS' procedures require districts to review the SFIS Temporarily Exempted Fingerprints Report weekly to determine if any exemptions need to be extended or if any exempted clients need to be fingerprinted. At the time of our review, Pasadena had not reviewed the exemption reports for at least six months. The Chief Clerk, who was appointed to her position early last year, stated that she was unaware of the requirement to review the reports.

To ensure that exemptions are followed up, DPSS management should instruct all districts to perform weekly reviews of the SFIS Temporarily Exempted Fingerprints Report and monitor their compliance.

Recommendation

- 13. DPSS management instruct all districts to perform weekly reviews of the SFIS Temporarily Exempted Fingerprints Report and monitor their compliance.**

SFIS/LEADER Interface

According to DPSS' Office of Information Technology (OIT) and LEADER Division staff, if the district exempts a client on SFIS, SFIS will update the LEADER fingerprint imaging results screen by automatically checking the appropriate exemption box (right or left finger exemption) on LEADER. OIT staff also stated that SFIS operators must access SFIS to extend exemptions. If a new exemption date is not entered and the participant has not come to the district to fingerprint his/her exempted finger, SFIS will send a transaction to LEADER to initiate action to terminate the case.

Our review indicates that the SFIS/LEADER interface may not be functioning as intended. Specifically, for the three districts visited:

- We identified 14 cases on the Temporarily Exempted Fingerprints reports where there were no exemption boxes checked on the LEADER fingerprint imaging results screen.
- We identified eight cases that were on the exemption report for several months, but the districts did not have any documentation to show that the exemptions were extended or that the client was ever contacted to resolve their exemption. If the SFIS/LEADER interface was functioning as described by OIT staff, these cases should have been terminated.

DPSS management should instruct OIT, in conjunction with LEADER Division and district staff, to review the SFIS/LEADER interface to ensure it functions as intended. If the review confirms that the SFIS/LEADER interface is not processing correctly, the SFIS and LEADER computer programs should be modified, as appropriate.

Recommendation

- 14. DPSS management instruct Office of Information Technology staff, in conjunction with LEADER Division and district staff, to review the SFIS/LEADER interface to ensure it functions as intended. If the review confirms that the SFIS/LEADER interface is not processing correctly, the SFIS and LEADER computer programs be modified, as appropriate.**

Terminated Cases on Exemption Reports

For the three districts reviewed, we identified 21 cases appearing on the Temporarily Exempted Fingerprints reports that show on LEADER as being terminated. Of these cases, nine had been terminated for over six months. Currently, DPSS' procedures require districts to follow up weekly on all cases appearing on the Temporarily Exempted Fingerprints reports.

DPSS contacted the State and were verbally told that terminated cases will continue to appear on the exemption reports until the case has been re-opened and new fingerprints have been captured. Therefore, in October 2001, DPSS sent a letter to the State requesting that the SFIS vendor modify SFIS to list only active cases on the Temporarily Exempted Fingerprints report. DPSS did not receive a response.

Although the number of terminated cases appearing on the reports is relatively small, SFIS has only been implemented for two years and the number of cases appearing on the reports will continue to increase. Therefore, DPSS should again request the State, in writing, to suppress terminated cases from appearing on the exemption reports. This will allow district staff to focus their weekly reviews on active cases.

Recommendation

15. DPSS again request the State, in writing, to suppress terminated cases from appearing on the SFIS Temporarily Exempted Fingerprints report.

WFP&I Operations**Welfare Fraud Linkage Analysis Database System**

WFP&I implemented the Welfare Fraud Linkage Analysis Database System (WFLADS) in August 1999 to detect potential welfare fraud. There are six pre-defined queries on the system:

- Cases with two or more children having near birthdates.
- Cases with an address in an affluent area.
- Persons linked to multiple Social Security Numbers (SSN).
- Persons using a SSN that was issued more than a year before the recipient's birth date.

- Persons using a SSN that, according to the Social Security Administration Office, has not yet been issued.
- Cases using a Commercial Mail Receiving Agent (CMRA) as their residential address.

In addition, WFP&I extracts WFLADS data to be matched with the Department of Motor Vehicles' (DMV) computer tape. These matches show welfare recipients who own a vehicle exceeding certain dollar amounts.

WFP&I has not run the queries on a regular basis due to problems interfacing WFLADS with LEADER. According to WFP&I management, LEADER is still being enhanced and an interface will not be built until LEADER's enhancements are completed.

WFP&I has run some queries by using the interface between the GAIN Employment Activity and Reporting System (GEARS) and LEADER. Matches from the query are assigned to WFP&I staff to work. However, WFP&I does not track the results of each review by query type. Tracking the results by query type would determine which queries are most cost-effective to work since WFP&I has limited staff to work these reports. As a result, once LEADER's enhancements are completed, DPSS management should develop the interface between WFLADS and LEADER and begin tracking the investigative results by query type to determine which queries are most cost effective to work.

Recommendation

- 16. DPSS management develop the interface between WFLADS and LEADER and begin tracking the investigative results by query type to determine which queries are most cost effective to work.**

Early Fraud Investigation Timeliness

WFP&I management stated that the benchmark for completing EFD/P investigations is five to ten days. We selected a total of 45 completed EFD/P investigations from the Metro East, Pasadena, and El Monte districts to determine whether the investigations were completed properly and timely. We noted that the investigations were appropriately documented on LEADER and that the investigative steps appeared reasonable. However, WFIs at Metro East took an average of 27 days to complete investigations. WFIs at Pasadena and El Monte took an average of 36 days and 25 days, respectively.

The extended timeframe for completing investigations could lead to overpayments. DPSS management should monitor the timeliness of WFIs in completing EFD/P investigations and initiate appropriate corrective action.

Recommendation

- 17. DPSS management monitor the timeliness of WFIs in completing EFD/P investigations and initiate appropriate corrective action.**

Consolidating Case Tracking Systems

WFP&I developed the Fraud Automated Control Tracking System (FACTS) in 1986 to track the status of fraud investigations. The system contains information such as the date WFP&I received the referral, allegation code, date assigned, date closed, and disposition code.

The implementation of LEADER in 2001 changed the case number format from numeric to alpha-numeric, which FACTS does not accept. Instead of modifying FACTS to accept alpha-numeric case numbers, DPSS developed a new Case Management System (CMS) in 2002 to process cases with alpha-numeric case numbers. However, WFP&I still uses FACTS for those cases where a numeric case number is still available. Therefore, WFP&I now uses two automated systems to track the status of fraud investigations.

DPSS should consolidate their case tracking systems to better control their fraud investigations and allow for more complete fraud investigation reports.

Recommendation

- 18. DPSS management consolidate the Fraud Automated Control Tracking System and the Case Management System.**

Other Issues**Missing Documents**

Prior to LEADER's implementation, individuals manually completed their applications and an annual redetermination of benefits document. With the implementation of LEADER, EWs now enter information into LEADER based on participant interviews. The EWs then print a Statement of Facts document for the applicants to verify and sign. State law also requires participants to complete a Monthly Eligibility Report (CW7) to report any income received and any changes in their circumstances (e.g., a new address, change in household composition, etc.). The Statement of Facts and the CW7 are key documents used in prosecuting fraud because they can be used to show that the client provided falsified information.

According to DA representatives, approximately 25% of cases referred from DPSS are not prosecuted because the case could not be found or because the case file did not contain any Statement of Facts documents or CW7s. In addition, for a high percentage

of cases, several of these forms are missing for the questioned time period, which weakens the DA's case and reduces the overpayment amount to be recovered.

DPSS' own statistics indicate problems locating cases and documents. For example, WFP&I closed 4,200 cases between August 1, 2002 and October 31, 2002. Approximately 24% were closed with the code "no fraud, negative assurance" because the case could not be found or because of missing documents.

DPSS management should determine the causes for the high rate of missing cases/documents and take appropriate corrective actions. This should result in more cases being prosecuted and a higher success rate when cases are prosecuted.

Recommendation

- 19. DPSS management determine the causes for the high rate of missing cases/documents and take appropriate corrective actions.**

Signing the Statement of Facts

As previously indicated, prior to LEADER's implementation, individuals manually completed their application for welfare benefits. Currently, EWs complete a Statement of Facts document directly on LEADER based on a face-to-face interview with the applicant. Once completed, the EW prints the Statement of Facts and obtains the applicant's signature on the last page. By signing, the applicant is attesting to the accuracy of the Statement of Facts information.

According to DA representatives, under the current procedure, applicants could claim they did not read or understand the document that was signed, that they assumed the information was correct and/or that it was entered erroneously. The DA representatives stated that the ability to successfully prosecute cases could be enhanced by requiring applicants to initial next to the most critical questions or to handwrite the answers to the most critical questions. In consultation with the DA, DPSS management should require the EWs to obtain either the applicant's initials or handwritten response next to the most critical answers on the Statement of Facts. According to DA representatives, DPSS management is very receptive to addressing the DA's concerns and several meetings have been held to work on modifying the Statement of Facts.

Recommendation

- 20. DPSS management require the EWs to obtain either the applicant's initials or their handwritten response next to the most critical questions on the Statement of Facts.**

Income and Eligibility Verification System Match Listings

- **Wage Match** – This match provides wage information reported to the Employment Development Department (EDD) by California employers. It also provides a list of possible recipients of duplicate aid within a county or between counties, as well as recipients receiving Supplemental Security Income / State Supplementary Program benefits.
- **Payment Verification System (PVS)** – Provides information on Retirement, Survivors and Disability Insurance, State Unemployment Insurance, and State Disability Insurance benefits.
- **New Hire Registry Match** – Provides counties with information on welfare recipients who were recently hired, rehired, or returned to work.
- **Franchise Tax Board (FTB) Asset Match** – Provides information on interest and dividends from asset accounts.
- **Internal Revenue Service (IRS) Asset Match** – Provides information on unearned income (e.g., interest or dividends) reported to the Internal Revenue Service and other income information not on the Franchise Tax Board's file.
- **Beneficiary Earnings Exchange Record (BEER)** – Provides wage information that includes out-of-state wages, self-employment, and wages not previously reported to EDD.
- **Jail Reporting System** – State law requires local entities that operate jails to report to CDSS the names of any person incarcerated for more than 30 days.
- **Nationwide Prisoner Match** – The CDSS matches records against the Social Security Administration's Prisoner Update Program System, which contains data from other states' jails and prisons.
- **California Youth Authority (CYA) Match** – The CYA provides CDSS with a file of minors incarcerated in a juvenile hall or other county juvenile facility.
- **Fleeing Felon Match** – The Department of Justice provides CDSS with a computer file of all felony warrants from the Wanted Person's System.
- **Deceased Persons Match** – Provides a listing of cases where a social security number used on a welfare case matches the social security number of a deceased individual on the Social Security Administration's records.



Bryce Yokomizo
Director

May 27, 2003

J. Tyler McCauley
Auditor-Controller
Kenneth Hahn Hall of Administration
500 W. Temple Street, Room 525
Los Angeles, CA 90012-2766

Dear Mr. McCauley:

DEPARTMENT OF PUBLIC SOCIAL SERVICES WELFARE
FRAUD PREVENTION PROGRAM REVIEW

Enclosed is my Department's corrective action response to the twenty recommendations contained in the Auditor-Controller's draft report on the Welfare Fraud Prevention Program Review conducted from December 2002 through January 2003.

On April 8, 2003, staff from my Department reviewed the subject report with your audit team. We generally agree with the overall findings and recommendations contained in the report. Nine of the recommendations identified in the report have already been implemented. The remainder are in the process of being implemented except for Recommendation 20, for which we are evaluating the feasibility of implementation.

I would like to express my Department's appreciation to the Auditor-Controller's Office for the professional manner in which the review was conducted and we thank your staff involved with the review.

Very truly yours,

A handwritten signature in black ink that reads "Bryce Yokomizo" followed by a circled initial "sk".

Bryce Yokomizo
Director

BY:wb

Enclosure

**DEPARTMENT OF PUBLIC SOCIAL SERVICES RESPONSES TO
WELFARE FRAUD PREVENTION PROGRAM REVIEW**

RECOMMENDATION 1

DPSS management develop a plan to reduce the backlog of wage abstracts in district offices. This plan should include exploring the feasibility of reallocating staffing resources in the districts and identifying funding sources.

RESPONSE:

DPSS concurs with this recommendation. DPSS has developed a plan to reduce the backlog of IEVS abstracts. The plan was implemented on March 24, 2003, with the formation of eight specialized sites within the Bureau of Workforce Services (BWS) offices. All of the backlog abstracts along with approximately 186 staff have been transferred to these sites. District management has been assigned to each site and given responsibility for preparing weekly progress reports. Progress is monitored each week by a Line Operations Development analyst and the BWS executive management team.

STATUS:

Implemented: March 24, 2003

RECOMMENDATION 2

DPSS management require districts to report statistics for all types of IEVS matches.

RESPONSE:

DPSS concurs with this recommendation. DPSS will develop a reporting policy for match listings and statistics for each of the listed IEVS matches.

STATUS:

Target date: June 30, 2003

RECOMMENDATION 3

DPSS management instruct districts to not delay working Medi-Cal abstracts while procedures for working the abstracts are being modified.

RESPONSE:

DPSS concurs with this recommendation. DPSS will prepare an Administrative Memorandum that instructs districts to not delay working Medi-Cal abstracts while procedures for working the abstracts are being modified.

STATUS:

Target date: June 30, 2003

RECOMMENDATION 4

DPSS management require districts to complete each investigation and return the Investigation Interim Reports to WFP&I within 45 days.

RESPONSE:

DPSS concurs with this recommendation. WFP&I released instructions to staff, "WFP&I Administrative Memo 03-04, dated March 13, 2003," requiring districts to complete each investigation and return the Investigation Interim Reports to WFP&I within 45 days. Similar Departmental instructions are being finalized.

STATUS:

Target date: June 30, 2003

RECOMMENDATION 5

WFP&I follow-up with districts for Investigation Interim Reports not returned within the 45 day deadline.

RESPONSE:

DPSS concurs with this recommendation. WFP&I released instructions to staff, "WFP&I Administrative Memo 03-04, dated March 13, 2003," requiring WFP&I follow-up with districts for Investigation Interim Reports not returned within 45 day deadline. Similar Departmental instructions are being finalized.

STATUS:

Target date: June 30, 2003

RECOMMENDATION 6

DPSS management monitor districts to ensure wage abstracts are prioritized in accordance with Section 20-006 of DPSS' Operations Handbook.

RESPONSE:

DPSS concurs with this recommendation. DPSS has developed Focused IEVS Reconciliation Engine (FIRE), an automated control system for the IFDS abstracts. The data tapes received from the state that were used to print abstracts are now loaded into this system that automatically sorts all abstracts into a priority order. Each district office has access to the system. FIRE can print the client contact and employer contact letters in addition to the IFDS abstract. Results are input directly back into the system which forms the data for accurate centralized reports. FIRE was implemented March 24, 2003, with the basic functions including sorting, printing and data collection.

STATUS:

Implemented: March 24, 2003

RECOMMENDATION 7

DPSS management establish priorities for working the various types of IEVS matches.

RESPONSE:

DPSS concurs with the recommendation. Priorities for working IEVS abstracts have been established, however, Line Operations Development will work with Program staff to reinforce/clarify the priority for the various IEVS matches.

STATUS:

Target date: June 30, 2003

RECOMMENDATION 8

DPSS management require Eligibility Supervisors to monitor Eligibility Workers to ensure that income reported by participants is entered into LEADER timely and accurately.

RESPONSE:

DPSS concurs with this recommendation. DPSS successfully piloted in July 2002, the concept of using a "Change Center" within each district operation to process the reported income from participants (CW-7 monthly reports). The main focus of the Change Center (via the Eligibility Supervisor) is to ensure that each participant report (CW-7) is worked by a Change Center Eligibility Worker accurately and in a timely manner. CW-7 Change Centers have now been established in each district operation.

STATUS:

Implemented: September 1, 2002

RECOMMENDATION 9

DPSS management needs to ensure the IEVS Management Report is completed by CDSS' due date.

RESPONSE:

DPSS concurs with this recommendation. DPSS is working to update its manual reporting process to an automated process. Once implemented the IEVS reports will be completed by the CDSS' due date.

STATUS:

Target date: November 30, 2003

RECOMMENDATION 10

DPSS management require district management to review the accuracy of internal reports used to compile data for the DPA 482.

RESPONSE:

DPSS concurs with this recommendation and will prepare an Administrative Directive to district management to review the accuracy of data for the DPA 482 report.

STATUS:

Target date: July 31, 2003

RECOMMENDATION 11

DPSS management ensure districts submit a County Response Document for Wage, PVS, FTB, IRS, and deceased person cases that are determined to be impact matches.

RESPONSE:

DPSS concurs with this recommendation. WFP&I Section released Administrative Directive, Number 2002 - 02, dated April 18, 2002, on procedures for processing the "Deceased Persons Match" as required by an amendment of the Food Stamp Act of 1977 (Public Law 105-379). Line Operations Development will work with program staff to clarify Departmental policy to ensure that response documents are submitted appropriately for Wage, PVS, FTB, IRS and deceased person cases.

STATUS:

Target date: June 30, 2003

RECOMMENDATION 12

DPSS management remind EWs and SFIS operators of the requirement that temporary exemptions be approved by EWs on the Fingerprint and Photo Imaging Referral form.

RESPONSE:

DPSS concurs with this recommendation. DPSS released SFIS Memo Number 13, dated May 1, 2003, addressing the requirement that temporary exemptions be approved by EWs on the Fingerprint and Photo Imaging Referral form.

STATUS:

Implemented: May 1, 2003

RECOMMENDATION 13

DPSS management instruct all districts to perform weekly reviews of the SFIS Temporarily Exempted Fingerprints report and monitor their compliance.

RESPONSE:

DPSS concurs with this recommendation. DPSS released SFIS Memo Number 13, dated May 1, 2003, addressing the requirement of performing weekly reviews of the SFIS Temporary Exempted Fingerprint reports and monitoring their compliance.

STATUS:

Implemented: May 1, 2003

RECOMMENDATION 14

DPSS management instruct Office of Information Technology staff, in conjunction with LEADER Division and district staff, to review the SFIS/LEADER interface to ensure it functions as intended. If the review confirms that the SFIS and LEADER interface is not processing correctly, the SFIS and LEADER computer programs be modified, as appropriate.

RESPONSE:

DPSS concurs with the recommendation. A review of the SFIS and LEADER interfaces was conducted in response to the above recommendation. The results of this review were reported on April 8, 2003. The review found that the interfaces are working as intended and that no computer program modifications are necessary or advised.

STATUS:

Implemented: April 8, 2003

RECOMMENDATION 15

DPSS formally request the State, in writing, to suppress terminated cases from appearing on the SFIS Temporarily exempted Fingerprints reports.

RESPONSE:

DPSS concurs with this recommendation. On October 24, 2001, and again on April 15, 2003, DPSS formally requested, in writing, the State suppress terminated cases from appearing on the SFIS Temporarily exempted Fingerprints reports.

STATUS:

Implemented: April 15, 2003

RECOMMENDATION 16

DPSS management develop the interface between WFLADS and LEADER and begin tracking the investigative results by query type to determine which queries are most cost effective to work.

RESPONSE:

DPSS concurs with this recommendation. DPSS is committed to improving the existing interface between WFLADS and LEADER.

STATUS:

Target Date: June 30, 2005

RECOMMENDATION 17

DPSS management monitor the timeliness of WFIs in completing EFD/P investigations and initiate appropriate corrective action.

RESPONSE:

DPSS concurs with this recommendation. WFP&I issued a memo to Early Fraud Out-stationed Supervisors, dated March 6, 2003, instructing that all referrals assigned in the current week must have a field call conducted during the following week.

Effective April 2003, WFP&I Management began using Quality Control Monitors to review cases to ensure timely investigations are conducted. Effective May 6, 2003, WFP&I managers began routine review of WFI referrals listed on LEADER to ensure referrals are completed in a timely fashion.

STATUS:

Implemented: May 6, 2003

RECOMMENDATION 18

DPSS consolidate the Fraud Automated Control Tracking System and the Case Management System.

RESPONSE:

DPSS concurs with this recommendation. WFP&I and Office of Information Technology staff are working jointly to establish LEADER as the sole system for tracking and reporting of investigative activities.

STATUS:

Target Date: November 30, 2003

RECOMMENDATION 19

DPSS management determine the causes for the high rate of missing cases/documents and take appropriate corrective actions.

RESPONSE:

DPSS concurs with this recommendation. On May 7, 2003, the Department released a missing document review checklist to aid in the thorough search for documents needed to prosecute welfare fraud, and on an ongoing basis, review tracking report results to determine the cause of missing documents.

The Department has taken the following corrective actions to reduce the incidence of missing documents:

- Tested a proof of concept CW 7 Automated Scanning and Tracking (CAST) system. CAST is a document scanning system. The system allows CW 7s, one of the documents needed for the prosecution of welfare fraud, to be scanned in the district office and saved to a server. The scanned documents can then be easily accessed.
- In February 2003, established a monthly report of “cases declined for prosecution by the District Attorney for missing documents.”
- In March 2003, created a new computer tracking code to identify situations in which documents cannot be located by the existing document imaging contractor.

STATUS:

Implemented: May 7, 2003

RECOMMENDATION 20

DPSS management require the EWs to obtain either the applicant's initials or their handwritten response next to the most critical questions on the Statement of Facts.

RESPONSE:

DPSS agrees with the intent of this recommendation. DPSS is evaluating the legal applicability and technical and operational feasibility of instituting this process. Additionally, we are determining the modifications that will be required to the LEADER system.

STATUS:

Target Date: August 31, 2003.